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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY
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RUEHAK/AMEMBASSY ANKARA PRIORITY 3707
RUEHBJ/AMEMBASSY BEIJING PRIORITY 1525
RUEHKO/AMEMBASSY TOKYO PRIORITY 1392
RUEHIT/AMCONSUL ISTANBUL PRIORITY 1961
RUEKJCS/JOINT STAFF WASHDC PRIORITY
RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 ASHGABAT 000546

SIPDIS

SENSITIVE
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STATE FOR SCA/CEN, EEB/TPP/ABT/ATP JANET SPECK
ANKARA FOR AGRICULTURAL COUNSELLOR

E.O. 12958: N/A

TAGS: [EAGR](#) [ECON](#) [ETRD](#) [PGOV](#) [TX](#)

SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES -
TURKMENISTAN

REF: STATE 39410

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: Turkmenistan relies heavily on imports of many basic foodstuffs. As a result of economic reforms in the country (including an 800% increase in gasoline prices), low domestic food production due to years of bad agricultural policies, rising food prices worldwide and an abnormally cold winter, food prices in Turkmenistan have increased steeply. The European Bank for Reconstruction and Development (EBRD) has estimated inflation since the beginning of the year to be 30 percent, with much of this effect felt in foodstuff prices. While public discontent is increasing, the Government of Turkmenistan appears to be aware of and is taking measures to counter it. However, current trends will most likely continue. END SUMMARY.

13. (SBU) Under former President Niyazov, Turkmenistan almost exclusively had a command economy, including in the agriculture sector, with a heavy emphasis on production of wheat and cotton. Niyazov instituted a policy of mandatory 10% production increases every year. This led to overfarming of Turkmenistan's delicate desert soil and increasing acreage being converted from livestock, fruit and vegetable production to cotton and wheat. Local experts believe that President Berdimuhamedov will gradually abandon Niyazov's ambitious plan of making Turkmenistan self-sufficient in wheat and will concentrate primarily on growing cotton. Experts believe that the government will purchase more wheat from abroad with its hydrocarbon revenues, and direct its efforts and resources toward promoting cotton production to feed its export-oriented textile factories.

FOOD AND AGRICULTURAL COMMODITY DEMAND

14. (SBU) As a country where industry is mostly concentrated on development of energy resources and agriculture is heavily dependent on irrigation, Turkmenistan relies largely on imports of basic food staples, including wheat, meat, sugar, and vegetable oil. According to post's unofficial estimate, Turkmenistan imports 50 percent of

the wheat the country needs, 99 percent of sugar and 50 percent of vegetable oil.

SUPPLY

15. (SBU) Domestic production of wheat is insignificant because of poor seed quality, ineffective bureaucratic management and shortages of irrigation water. According to official 2007 statistics, Turkmenistan harvested 1.2 million tons of wheat -- independent estimates place this figure closer to one million tons. This is half of the wheat needed for the country's population.

16. (SBU) The expansion of wheat and cotton production also resulted a decrease in the land available for growing fruits, vegetables, rice, and other products. Turkmenistan imports fresh and dried fruit, vegetables and nuts from Iran, Pakistan and the United Arab Emirates; sunflower oil from Russia, Ukraine and Turkey; and soybean oil from Iran. Turkmenistan produces cottonseed oil, which is mainly consumed by the country's rural population due to its lower cost.

17. (SBU) Over the past three years, domestic production of meat and dairy products decreased due to both the increased price of animal feed and the decreased acreage for grazing -- a direct result of the government's expansion of wheat and cotton production. (NOTE: These decreases were exacerbated by extensive livestock losses due to the abnormally low temperatures during January and February 2008. END NOTE.) This decreased production also led to sharp price increases for these products.

ECONOMY

18. (SBU) The European Bank for Reconstruction and Development has
ASHGABAT 00000546 002 OF 002

estimated inflation since the beginning of the year to be at 30 percent. Over the past 18 months, prices at local markets increased 25 percent for flour, 50 percent for butter, and 120 percent for sunflower oil. These higher prices were the result of a number of factors, including global increases in food prices, decreased domestic production and sharply rising transportation costs following a sharp 800% increase in gasoline prices as the president seeks to begin phasing out fuel subsidies. The higher flour prices were reflected in the increased price of bread sold at the markets.

POLITICAL IMPACT

19. (SBU) Until February 2008, the government was fairly successful in maintaining living standards of the very poor through a system of extensive subsidies, including cheap automobile gasoline. A February 11 government-mandated gasoline price increase immediately caused a spike in transportation costs and set off a 20 to 50 percent increase in food prices. Food prices continue to rise, putting the population -- especially those with low incomes -- closer to the edge of survival. Public discontent is growing, but there have not yet been any signs of unrest or friction between Turkmenistan's "haves" -- basically government officials -- and "have-nots."

ENVIRONMENT

110. (SBU) Former President Niyazov's ambitious and unrealistic plans for wheat and cotton resulted in degradation of soil and water quality, salinization of farmlands, and ecological imbalances. Although the government adopted a new land code in 2004, which states that land will be taken away from farmers who misuse or waste land and water, the land is rarely enforced in Turkmenistan, where all land is state-owned.

HOST GOVERNMENT POLICIES

111. (SBU) Government officials appear to be well aware of public discontent. In addition to increasing security, government officials have responded by purchasing chicken from the United States and low-quality "buffalo" meat from India. On April 29, the

president signed a decree ordering an increase in the acreage (from 13,000 hectares to 18,000 hectares) to be allocated to rice production. He also has offered soft loans and tax benefits for private food producers. All these measures are intended to address shortages and keep prices under control.

POST PROGRAMS

¶12. (U) This post does not administer food aid programs.

POLICY PROPOSALS

¶13. (U) Post has encouraged and will continue to encourage the Government of Turkmenistan to allow farmers to privatize plots in order to reduce monoculture. Post also encourages the Government of Turkmenistan to commence utilization of environmentally sound farming techniques such as crop rotation.

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